

Audit of Corporate Real Estate Management: Strengthening Accountability and Oversight of Change Orders in Capital Projects

Date: April 17, 2026
To: Audit Committee
From: Auditor General
Wards: All

REASON FOR CONFIDENTIAL INFORMATION

The confidential attachment to this report contains information that is subject to litigation or potential litigation that affects the City of Toronto.

The confidential attachment to this report contains information that is about a position, plan, procedure, criteria, or instruction to be applied to any negotiations carried on or to be carried on by or on behalf of the City of Toronto.

SUMMARY

The Corporate Real Estate Management (CREM) Division is responsible for delivering some of the City's largest and complex capital construction projects.

The Auditor General's [2025 Audit Work Plan](#) included a review of CREM's oversight and management of capital projects. The focus of this audit was on CREM's processes for reviewing capital project change orders and related documentation, as changes that occur on capital projects can result in project delays and significant cost increases. In addition, the Auditor General's [2025 Annual Report on the Fraud and Waste Hotline](#) highlighted an emerging fraud risk related to change orders.

This audit assessed whether CREM sufficiently monitors and oversees change orders for capital projects ensuring that change orders are properly justified and appropriately reviewed and approved.

Our audit identified opportunities to:

- A. Strengthen Processes to Ensure Appropriate Change Order Oversight
- B. Reinforce Roles and Accountabilities for Change Order Review and Approval
- C. Improve Performance Through Ongoing Monitoring, Evaluation, and a Stronger Project Management System

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the Executive Director, Corporate Real Estate Management (CREM) Division, to improve and formalize the Division's change order policies and procedures to ensure they are comprehensive, clear and consistently applied across all capital projects and aligned with contract terms. At a minimum, the procedures should:
 - a. Establish CREM staff and management approval authorities and financial thresholds for review and approval of change orders, including requirements for escalation to senior management where necessary
 - b. Specify documentation requirements for CREM staff for change orders, including justification for the change, cost and schedule impact, cost breakdown, and evidence of review and approval by required parties
 - c. Specify documentation requirements for CREM staff confirming that markups and additional fees and charges included in change orders are applied in accordance with the contract
 - d. Specify review requirements for CREM staff for contractor invoices, including verification that the related work is completed in accordance with the contract terms before payment is authorized and released
 - e. Set expectations for CREM staff for completing and communicating consultant and contractor performance evaluations and following up to make sure appropriate corrective actions are taken in areas where consultants and contractors do not meet expectations.
2. City Council request the Executive Director, Corporate Real Estate Management Division, to provide training for project managers when the capital project policy and procedures are implemented or updated, and when quality assurance reviews indicate the need for supplementary refresher training, to ensure consistent understanding and application of change order requirements across all capital projects.

3. City Council request the City Manager, in consultation with the Chief Procurement Officer, City Solicitor, and relevant Division Heads, to review contract structures, procurement practices, legal risks, and vendor relationships and consider adopting a consistent City-wide approach for directly accessing and reviewing subcontractor records, to enhance oversight of change orders and address risks related to contractor overbilling and/or irregularities in change order documentation.

4. City Council request the Executive Director, Corporate Real Estate Management (CREM) Division, in consultation with the City Solicitor, to:

a. Review the change orders for contracts where potential overcharges for markups and other charges were identified during the audit and take appropriate steps to recover the funds or secure credits, where possible

b. Review change orders for all current capital projects (and recently completed capital projects, prioritized based on risk) to confirm contract terms for markups and other charges are correctly applied and pursue recovery or credits of any charges that are not in accordance with contract terms, where possible

c. Standardize and clarify the contract language included in CREM project-specific schedules attached to the City's standard construction agreement and ensure staff's consistent understanding of the applicability and calculation of markups and other additional fees and charges related to a change; and, where applicable, provide feedback on potential improvements to the City's standard clauses for consideration as part of the City-wide review of construction agreement templates.

5. City Council request the Executive Director, Corporate Real Estate Management (CREM) Division, to ensure CREM staff and external consultants have an appropriate and consistent understanding of the consultants' roles and responsibilities for reviewing and recommending change orders for City approval, including:

a. Assessing the reasonableness of change order pricing

b. Documentation standards and record retention requirements

c. Verifying general contractor compliance with City contract terms.

6. City Council request the Executive Director, Corporate Real Estate Management (CREM) Division, to reduce overreliance on external consultants and to update policies and procedures and provide training, to reinforce CREM project managers' understanding of the importance of fulfilling their oversight responsibilities and overall accountability for reviewing, approving and administering change orders.

7. City Council request the Executive Director, Corporate Real Estate Management (CREM) Division, to ensure:

- a. Change orders are appropriately reviewed and records demonstrating the nature and extent of reviews of the reasonableness and appropriateness of change orders (including pricing, scope, and schedule impacts) are retained in the City's project files
- b. Change orders and change directives are appropriately approved, in accordance with signing authority and financial thresholds, before beginning work
- c. Contractor invoices and supporting documentation are reviewed and confirmed by CREM project managers to comply with contract terms and related policies and procedures, before payment is approved and released.

8. City Council request the Executive Director, Corporate Real Estate Management Division, to establish a formal and consistent process for identifying, documenting, and managing change orders resulting from design errors and omissions. This process should include:

- a. Requiring the use of standardized categories to identify the reasons for change orders (including design errors and omissions) and consistently tracking design errors and omissions across projects
- b. Establishing procedures for assessing additional costs arising from design errors and omissions
- c. Defining when and how to pursue claims and cost recovery from the external consultant, including required documentation, considering the cost and benefit of pursuing such claims.

9. City Council request the Executive Director, Corporate Real Estate Management (CREM) Division, in consultation with the Chief Procurement Officer and City Solicitor, to:

- a. Ensure that CREM project managers consistently complete the mandatory performance evaluations for general contractors and consultants
- b. Ensure that CREM project managers monitor general contractors and consultants to confirm they take corrective actions in response to areas where performance does not meet expectations. This includes communicating issues, reviewing progress and documenting whether the issues persist or are resolved
- c. Ensure that the performance evaluations are reviewed and used for performance management purposes, and to explore opportunities to incorporate evaluation results into future bid evaluations.

10. City Council request the Executive Director, Corporate Real Estate Management (CREM) Division, to strengthen the quality assurance process for both complete and active projects and to include a focus on capital project change orders by:

- a. Establishing the scope and frequency of quality assurance reviews related to change orders
- b. Ensuring quality assurance reviews examine a sample of change orders to verify that CREM project managers have obtained, reviewed, and retained sufficient supporting documentation to confirm that changes were necessary and justified; that costs, schedule impacts, and markups or other fees are reasonable and in accordance with contract terms; and that all required approvals and supporting documentation were obtained in a timely manner
- c. For a selection of general contractors, confirming directly with subcontractors that the amount on change orders matches the subcontractors' quotes or actual charges invoiced to the general contractor, where possible.

11. City Council request the Executive Director, Corporate Real Estate Management (CREM) Division to:

- a. Expedite implementing a centralized system to track and record key documentation and data for capital projects, including all change orders
- b. Ensure the use of standardized categories to identify and track the root causes of change orders
- c. Establish and implement key performance indicators (KPIs) for change order management to support consistent monitoring and oversight of compliance with internal procedures and contractual requirements
- d. Create standardized reports for management to monitor change orders and related KPIs, including volume, value, reasons and trends across all CREM-managed capital projects.

12. City Council direct that Confidential Attachment 1 remain confidential in its entirety, as it contains information that is subject to litigation or potential litigation that affects the City of Toronto and contains information about a position, plan, procedure, criteria, or instruction to be applied to any negotiations carried on or to be carried on by or on behalf of the City of Toronto.

FINANCIAL IMPACT

Addressing the recommendations in this report will enable CREM to better oversee and monitor that change orders are properly justified, accurately documented, approved in a timely manner, comply with contract terms and are managed within the project budget and schedule. The resulting financial implications of improved processes, and the extent

of recoveries or reductions of contractor overbillings and contract non-compliance and/or resources needed, could not be determined at the time of this report.

DECISION HISTORY

The Auditor General's [2025 Audit Work Plan](#) included a review of Corporate Real Estate Management's oversight and management of capital projects.

COMMENTS

A high-level summary of key audit findings is provided in the Audit at a Glance.

The attached audit report provides the Audit Committee and members of Council with the detailed audit results and recommendations together with management's response. Management has agreed to all 11 recommendations.

Work on certain matters arising from this audit is ongoing and may be reported upon separately in the future. A summary of these matters is included in Confidential Attachment 1.

CONTACT

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SIGNATURE

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Auditor General

ATTACHMENTS

Attachment 1: Audit of Corporate Real Estate Management: Strengthening Accountability and Oversight of Change Orders in Capital Projects

Confidential Attachment 1